

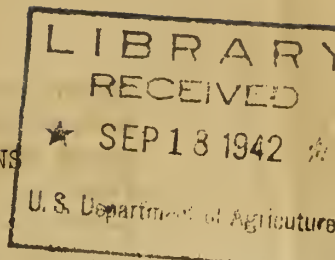
Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

1.942
F3S05
Reserve

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

SOME OBSERVATIONS OF THE PAST 25 YEARS AND SUGGESTIONS
FOR THE FUTURE AS THEY AFFECT DISTRIBUTORS OF
FRESH FRUITS AND VEGETABLES



By C. W. Kitchen, Chief,
Agricultural Marketing Service

Address, National League of Wholesale Fresh Fruit and Vegetable
Distributors, Cleveland, Ohio, January 9, 1941.

Twenty-five years is not long as time is measured. But many changes in fresh fruit and vegetable distribution have been crowded into the last 25 years. A quarter of a century ago the world was at war. Today, the economic and military forces of the world are again divided and engaged in desperate conflict. Price and supply conditions in the fruit and vegetable industry 25 years ago were almost the opposite of what they are today. Favorable prices for a decade or more after the war brought rapid expansion in the production of these commodities, and increasing acreages of truck crops and fruit trees were planted. It was a period of pioneering, and some of you here today doubtless consider that period as the prosperous era of the industry.

But today we find we have not yet recovered from the disaster of the last war and no one can foretell the results of the present catastrophe. Most certainly agriculture will be profoundly affected. Marketing has been defined as half of agriculture. And those who are engaged in marketing will need to work together, with all the skill and experience they can command, if they are to keep abreast of changing conditions and if they are to render the services for which they exist. Marketing is a national problem and concerns all the people.

Early Marketing Work of the Department

The first half of the last quarter century also was a period of pioneering for the Department of Agriculture, for only 25 years ago the Department was just beginning in a specialized way to concern itself with marketing problems. In 1913 we saw steps taken to begin reporting market news on farm products as a Federal public service. That year Congress included in the agricultural appropriation bill for 1914 an item of \$50,000 to enable the Secretary of Agriculture to acquire and diffuse among the people of the United States useful information on subjects connected with the marketing and distribution of farm products. An Office of Markets was

established in the Department to handle this work. Later this organization became the Bureau of Markets, then it was combined with two other bureaus to form the Bureau of Agricultural Economics, and on July 1, 1939 the marketing work and related activities were consolidated in the Agricultural Marketing Service - a new bureau in the Department.

It might be of interest to recall briefly how this first marketing service function of the Department came into existence. For several years prior to 1913 some growers and shippers of Georgia peaches noticed that New York and a few other cities were periodically over-supplied. Peaches brought less than freight charges. The railroads were alleged to have failed to provide cars promptly and losses in transit were heavy. To make matters worse came reports that satisfactory prices had prevailed in other markets when the big eastern cities were over-supplied. Many of them felt that the crops were not being distributed as well as they could be and that a more general knowledge of the market and supply situation might improve these conditions.

This agitation brought about a proposal by Senator Hoke Smith of Georgia, which eventually resulted in legislative authorization and funds for market reporting by the Department. Some Department officials and many in the trade were skeptical at first of the practical value of daily market reports. Many of us can remember when such Government activities as formulating uniform standards and promoting their use, developing inspection and market news, and even crop estimating were regarded by many as unwarranted encroachments upon private business and a waste of public funds. Marketing reporting, however, proved its worth. It now serves growers, shippers, and the produce trade in all the leading markets and important shipping districts of the country.

A recent development is that of providing regular so-called consumer radio broadcasts prepared primarily for homemakers. This development shows promise of considerable value particularly in connection with fresh fruits and vegetables. It serves to help homemakers obtain economical "buys" and add variety to their menus. The reporters try to add interest to these broadcasts by including not generally known or forgotten bits of information regarding the different products, such as their early history, where they are grown, and how they are sued. The principal theme, however, is to point to products in heavy supply and to seasonal changes in sources of supply.

Such broadcasts are well received by consumers, farmers, and distributors. They are now presented over a network of radio stations covering the New England States; also from Cleveland, Cincinnati, and Kansas City. They help consumers to develop more interest in current marketing conditions, and to have a better understanding of supply

and price changes as they occur. We believe that such interest and understanding are important. This kind of market news work can be related to dealer-service work for which there is still great need. It is all a part of the problem of developing a national point of view regarding marketing.

JAN 15 1943
The early part of the past quarter century likewise was a pioneering period in the standardization and inspection of fruits and vegetables. These activities gained impetus from the operations of the Food Administration during the last war. That agency, which included representatives from the fruit and vegetable industry, found a real need for an unbiased inspection agency to handle disputes between buyers and sellers, to carry into use the new potato grades, and to speed up the movement of fruits and vegetables under war-time conditions. Shippers and receivers soon began to appreciate the practical value of an unbiased inspection service that was operated in the different markets under uniform procedure. Consequently, in 1918 Congress provided authority and funds for it. Demand for official inspection grew rapidly. In 1922 further Congressional legislation extended it to shipping points. This action resulted in the shipping point inspection program we have today which is carried on in cooperation with most of the States. More than 500,000 cars were inspected last year.

Early Regulatory Work

I mention these two developments in the marketing work of the Department merely to show how these services grew out of the needs and representations of the fruit and vegetable industry -- needs for assistance in effecting improvements which the industry could not effectively accomplish through its own facilities. The regulatory laws pertaining to fruits and vegetables which we administer today, such as the Standard Container Acts, the Produce Agency Act, the Export Apple and Pear Act, and the Perishable Agricultural Commodities Act, grew out of much the same situation.

The fairly prosperous years in the fruit and vegetable industry from 1915 to 1929 attracted many persons to it, some with little experience and a careless disregard for accepted business ethics and contractual obligations. The great distance from shipping areas to the markets and the perishability of the commodities helped to provide a fertile field for the unscrupulous operator. Competitor practices frequently sank to the level of the least scrupulous. Unfair practices became all too prevalent. Cooperative measures through which trade leaders proposed to correct these conditions were not generally supported, and the law of the jungle generally prevailed. These were the reasons why the Produce Agency Act was passed in 1927 and the Perishable Agricultural Commodities Act in 1930.

This legislation expressed the feeling of leaders that "rules of fair play" must be adopted and enforced in order to keep the industry on a sound business basis and to preserve the many reputable concerns in it. Growers and shippers were interested in the legislation because they felt the need of protection in their dealings with receivers in markets frequently several thousand miles away. It was a situation with which the industry was unable to cope. The difficulties were harder to meet because of the general lack of unity throughout the industry.

The code of fair business dealings represented by the Perishable Agricultural Commodities Act was a far-reaching effort to bring an industry under Federal regulation in order to curb undesirable practices and to raise the general level of business relationships. In 1933 we heard much about codes of fair trade practice under the National Recovery Act and in fact the whole produce trade operated for a time under a code of fair competition developed under that statute. The Perishable Agricultural Commodities Act preceded codes of that nature by several years and was able to make effective its restrictive provisions through the licensing power vested in the Secretary of Agriculture. We recognize the grave responsibility that this power imposes on us, because the issuance of a license to a distributor is necessary before he can engage in the produce business. Although there is room for improvement, apparently the administration of that law has been practical and effective because we hear few complaints about it today. The law has been amended several times to stop loop-holes disclosed by experience. There is opportunity for further amendment to increase its effectiveness and service to the industry.

The Depression, a Turning Point

The devastating depression beginning in 1930 marked another turning point in the fresh fruit and vegetable industry. Price deflation and unemployment came at a time when the industry had been expanding rapidly. The present decade is in direct contrast to the so-called prosperous period of the 1920's. Large supplies have pressed continually on market outlets. And, with lower prices, the returns to grower and distributor have barely covered, and frequently have failed to cover, even the costs of producing and marketing. Under these conditions the struggle for business survival has taken on many aspects which, incidentally, directly affect growers and consumers as well as distributors.

In their efforts to meet conditions of low prices and high distribution costs, distributors and growers alike have sought ways of cutting their expenses. These efforts have taken many forms. The increase in chain stores and volume distributors, and the greater use of the motortruck in transporting fruits and vegetables directly from the country to warehouse and stores, have resulted in a smaller volume going through established wholesale markets. At the same time, obsolete facilities and other conditions, have made it impossible for many wholesale receivers to operate efficiently.

The shrinking volume passing through many of the wholesale markets today has resulted in an intense scramble for business among distributors. One result is that the previous demarcation of functions performed by the carlot receiver and the city jobber is disappearing and in many places the functions of each class of distributor have been merged. As a consequence, some carload receivers have become jobbers and some jobbers purchase their supplies direct from shipping points. This struggle for business survival naturally has resulted in even less cooperation and unity among the different elements in the trade. Thus it has become increasingly difficult for the distributing branch of the industry to act together on constructive policies.

I believe it is safe to say that if it were not for the Perishable Agricultural Commodities Act and the Produce Agency Act, business practices would be at a very low level. Without these laws it would be even harder for firms operating in a reputable manner to stay in business.

A surprising number of distributors are having financial difficulties today. Fundamentally these troubles grow out of the economic conditions of the present decade and the inefficient markets in which many firms have to operate.

The weakening consequences of these conditions on the distributing trade is illustrated in part by the fact that there is a 25 percent turnover in the number of licenses issued annually under the Perishable Agricultural Commodities Act.

This is a problem that is clearly of interest to the general public because it concerns the distribution of many protective foods among the fresh fruits and vegetables that we need in our diets. Naturally, it should warrant the most careful consideration of leaders in the fruit and vegetable industry.

Proposals for Improving Wholesale Market Operations

During the past 2 years especially, leaders in the distributing trade have given searching thought to these problems and how to solve them. I understand this general subject was explored at some length by your convention last year. It came to our attention in several conferences of trade officials at which the question of improving trading conditions in the wholesale receiving markets received major consideration.

It seems clear from these meetings and our observations that the difficulties in many of the city wholesale markets are of two general types:

1. Those arising out of unregulated selling hours and uneconomical competitive practices.
2. Those due to the outmoded character and inefficient organization of the market itself.

Selling Hours and Trade Practices

copy # 1 } The unnecessarily long selling hours and certain unfair trade practices are outstanding problems in many markets and work to the detriment of growers, distributors, and consumers. These conditions may involve individual firms, groups of firms, or an entire market, depending on the particular situation. They, of course, reflect the strenuous competitive struggle between distributors in which some seek to maintain themselves in business by keeping their stores open as many as 24 hours per day and by engaging in practices regarded by many as unfair. Their competitors are forced to do likewise, with the eventual result of increasing labor costs for all and a "draggy" market much of the time. This tends to depress returns to growers and to slow up the flow of produce into consumption.

These problems cannot be solved through voluntary cooperative action or "gentlemen's agreements" much as some would like to work them out by such means. Experiences with such understandings show that they are not completely effective. The failure of such efforts in the past has caused some trade leaders to seek practical means of utilizing the powers of the Federal Government in aiding the industry to cope with these situations.

Proposals have been made to us by representatives of the trade which suggest the regulation of wholesale and receiving markets on a permissive basis. It has been suggested that only markets in which a large majority of the wholesale market operators favor supervision be brought under the supervision of the Secretary of Agriculture following appropriate legislation by Congress. The proposals provide also for terminating supervision, by referendum, after a relatively short time. We understand that proposals of this general nature have been endorsed, in principle at least, by your association and by the other national trade organizations.

In both the tentative proposals of the trade and in our consideration of the subject, the question of a committee to represent the operators and the markets to be supervised has been given much thought. There is much to be said in favor of such committee's acting in an advisory capacity with the Department in handling regulatory measures of the nature suggested. A committee could furnish valuable information and advice in the practical administration of any plan which might be adopted. It could be a focal point in the market around which the trade might gather and serve as a general overhead advisory organization.

Last November a draft of a plan was presented to us at a conference attended by representatives of three major trade organizations. The proposal was discussed, and rather thoroughly. We expressed sympathetic interest in it, in principle, but suggested that the Department might experience considerable difficulty in trying to enforce regulations

on such a permissive basis. We pointed out that from an administrative standpoint effective supervision would require men of recognized ability and training, and that personnel of this type could not be obtained on such uncertain tenure. There is much to be said in favor of a mechanism by which the people would have something to say about the regulations governing them. There should be full opportunity to be heard and methods should be provided through which the views of the trade could be expressed. After a market had been designated for supervision, however, enforcement of the law and the regulations should be carried on through the usual official channels.

At the conclusion of the meeting, we were requested to redraft the proposal and send the revision to the three trade organizations. This was done early in December.

Some of the alleged unfair trade practices which the group sought to bring under regulation are deserving of brief comment. Reference was made to the code for the wholesale produce industry that was in effect under the National Recovery Act. This seems to have been the basis in large measure for the ideas which the trade representatives had for additional legislation.

There were seventeen different trade practices prohibited under that code. They ranged from so-called destructive price cutting to unearned brokerage fees, fictitious quoting of prices, and false advertising. Indiscriminate cutting of commission rates also was mentioned. Whatever action is taken is, of course, entirely a matter for the industry to decide.

There is another phase of the general problem of unfair competitive practices that might be mentioned. It relates to the filing of false freight claims with the railroads by receivers and others. Such an abuse, to whatever extent it may exist, should be of concern to the entire trade. You may remember that a few years ago two bills were introduced in Congress which provided in part for mandatory Federal inspection, for condition, of all cars of fruits or vegetables received in the important terminal markets and for the paying of freight claims only on the basis of such certificates. I believe one of the national trade organizations endorsed these bills in principle. These bills probably needed considerable modification, but they provided the germ of an idea which is still good and should merit serious consideration in a collective way, if this abuse is as widespread as it is reported to be.

Inefficient Market Facilities

During the past several years a number of investigations have been made by the Department in different cities to study the efficiency of existing market facilities. These investigations have been very broad, including not only the physical arrangement of the stores, sheds, and streets used in the markets but also have paid considerable attention to the organization of the market so that distribution costs could be reduced. Outstanding pieces of work done by the Department are studies of the New York and the Philadelphia produce markets.

We in the Department have been disappointed in the lack of progress that has been made in effecting necessary improvements. The studies ~~have been~~ made in the Department to develop ^{the} facts as a basis for consideration and action by receivers, shippers, growers, and consumers as one means of cutting distribution costs and facilitating delivery of the produce to consumers in the best possible quality. These are commendable objects and it ^{has been} difficult to understand why all groups should not readily agree upon and push for a program of improvement for the good of all.

We understand, of course, that the interests of some transporting agencies, labor groups, and property owners may be widely divergent on such a program. In fairness to a few of such groups there is some basis for their opposition to changes in the produce markets because adequate funds may not be available for new construction. This problem probably could be worked out on a reasonable basis if a majority of the different interests concerned could see fit to support a modernization program.

I believe it sound to say that no matter how efficient a receiver or jobber may be in his own operations, he is doing business with a millstone around his neck if the market organization and the structures in which he works are uncoordinated and inefficient. These persons are handicapped with inefficiency which their own management and hard work cannot overcome. The result, usually, is that either they are forced out of business or they resort to unfair practices in an effort to maintain themselves.

Such conditions provide a fertile field for "rackets," and provide opportunities for groups outside of the produce trade to invade the field of distribution of fresh fruits and vegetables in many markets. It is doubtful if such conditions can be overcome, unless the markets are brought under public supervision, or are operated by an authority representing growers, shippers, and consumers as well as the distributing trade. It seems apparent that some of the groups who oppose modernizing market facilities overlook the value to themselves in reducing their costs of doing business when they resist reasonable change.

The research work on wholesale market facilities is done by the Bureau of Agricultural Economics. I have made reference to it today because the Agricultural Marketing Service is always interested in possible ways of improving marketing methods and conditions. I believe this is an important matter, and deserves the cooperation, not only of your association but of all groups concerned with the marketing of fruits and vegetables, in order that means will be found to effect needed improvements for the good of all.

There probably have been few, if any, other times in the produce industry when so many important questions have pressed for answers. We recognize the seriousness of these questions and their implications in the growing public interest in lower cost food distribution. Such a system surely will evolve from present unsatisfactory conditions. This seems to me to be a time when all branches of the trade should discard jealousies and selfish interest, to the extent they may exist, and unite in a spirit of determination to improve conditions for their own good and the general public which they serve. To this end the facilities of the Agricultural Marketing Service are available as they have been in the past to assist in every proper way.

although we recognize that extensive changes are not possible during the emergency.

